

Bluejay Mining

JV signed with billionaire-backed KoBold Metals to advance Disko exploration programme

Bluejay Mining PLC (“JAY”) has announced the signing of a definitive Joint Venture agreement with KoBold Metals (“KoBold”) to fund a significant drilling campaign at the polymetallic Disko-Nuussuaq project (“Disko”) in Central West Greenland. KoBold can earn up to 51% of the project through sole-funding two stages of exploration spending totalling US\$15m by Dec 2024, including US\$11.6m dedicated to drilling, with Bluejay managing field activities in this period. While we note “alternative scenarios” were considered – potentially involving major mining groups – this deal will allow BlueJay to retain a material 49% interest in the asset by funding its share of spending post 2024, with no options granted to KoBold to increase its ownership further. The fact that KoBold is primarily an explorer strongly aligns the partners’ interests in the JV, in our view. Overall, we see this as a good deal for both parties, with JAY benefitting from the optionality being unlocked at Disko as its theoretical prospectivity is tested whilst preserving the Company’s balance sheet to focus on the flagship Dundas Ilmenite Project. We retain our 24p/sh target for JAY, 110% above the current price, with Disko contributing just ~2p/sh, suggesting further valuation upside as exploration progress is reported.

Seal of approval from well-funded, technically-advanced exploration group

KoBold’s objective is to use machine learning and other scientific computing techniques to increase the ethical supply of critical materials (i.e., Ni, Co, Cu, Li, Pt, and Pd) required for EVs. Drawing on a world-class team of geologists, geoscientists and specialists in data science, artificial intelligence, software engineering, physics and mathematics, KoBold has developed proprietary machine learning tools to predict the location of orebodies. This technology is already being deployed across KoBold’s portfolio in N America, Zambia and W Australia. Importantly, KoBold is extremely well-backed financially, being privately held by principal investors Breakthrough Energy Ventures, a climate technology fund overseen by Bill Gates and Jeff Bezos amongst others; Andreessen Horowitz, a Silicon Valley venture capital fund; and Equinor, the Norwegian state oil company. We also note KoBold’s Technical Lead on Magmatic Systems is Dr Peter Lightfoot, a world-renowned nickel geologist with prior experience of Disko, having been involved with a Falconbridge campaign in the 1990s and identified parallels to the massive Norilsk system in Russia, as well as major nickel-copper-cobalt discoveries in Canada.

Transaction details: advancing attractive exploration assets for minimal outlay

The JV agreement is comprised of two earn-in stages, with an initial US\$3.4m to be deployed by the end of 2022 on geological and geophysical evaluation, using KoBold’s inhouse technology, to refine targets for drilling. This will be followed by Stage II involving either a minimum of US\$11.6m in drilling expenditure or completion of 15 pre-agreed drill holes by the end of 2024, although KoBold has flexibility to accelerate the programme if desired. This work will build on historical fieldwork and evaluation by Bluejay and previous owners, implying a relatively high chance of drilling success, in our view. Compared to a typical earn-in deal with a major miner, we believe this structure maximises the probability of reaching significant exploration milestone from a drilling programme, whilst allowing JAY to retain material exposure to further upside. Today’s deal with KoBold is the third introduction of a partner to JAY’s non-core portfolio in 2021, with the Company having struck a US\$20m earn-in agreement with Rio Tinto at Enonkoski in Finland in January, and in July vending two other Finnish projects into the soon-to-be-listed Metals One plc for £4m in equity. In so doing we believe Bluejay has successfully boosted the potential to deliver value from the assets whilst allowing the Company’s own expenditure to be focused on Dundas.

Valuation – we retain GBp24/sh target price, offering 110% upside

We model a long-term ilmenite of US\$210/t (FOB) which is more conservative than the PFS input of US\$232/t and current spot at ~US\$375/t. On this basis we reach an NPV8 of US\$305m for Dundas, to which we apply a 0.8x multiple. We then add a further US\$60m for JAY’s earlier-stage exploration assets, including a conservative US\$30m for Disko. Adjusting for working capital and G&A, we derive a total Dec’21E risked SOTP of US\$307m (24p/sh).

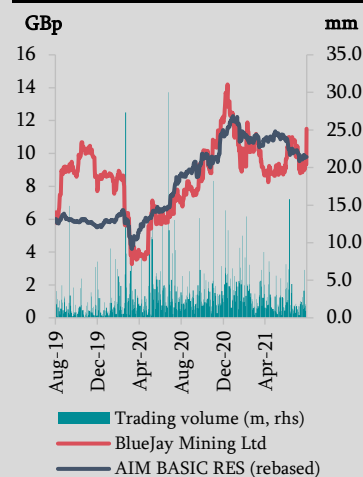
GICS Sector	Materials
Ticker	LN:JAY
Market cap 09-Aug-21 (£m)	111
Share price 09-Aug-21 (GBp)	11.59
Target price 31-Dec-21 (GBp)	24

110%

Upside from the current share price to our 24p/sh target

US\$15m

Committed spend on evaluation and drilling at Disko by KoBold to earn into 51% of the project



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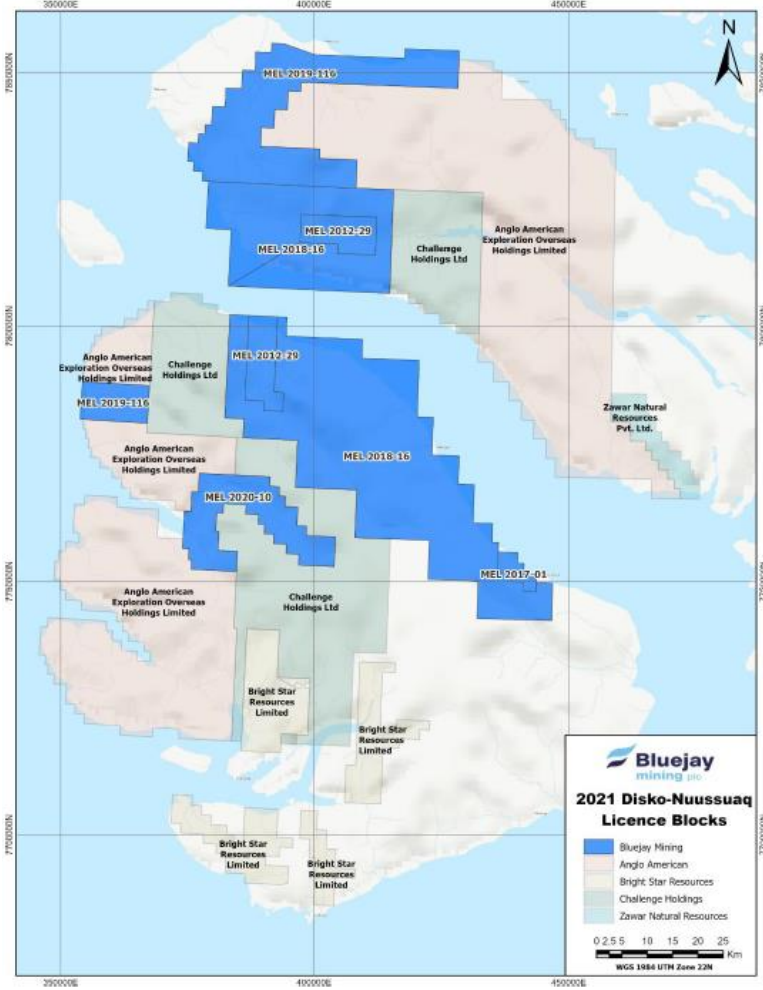
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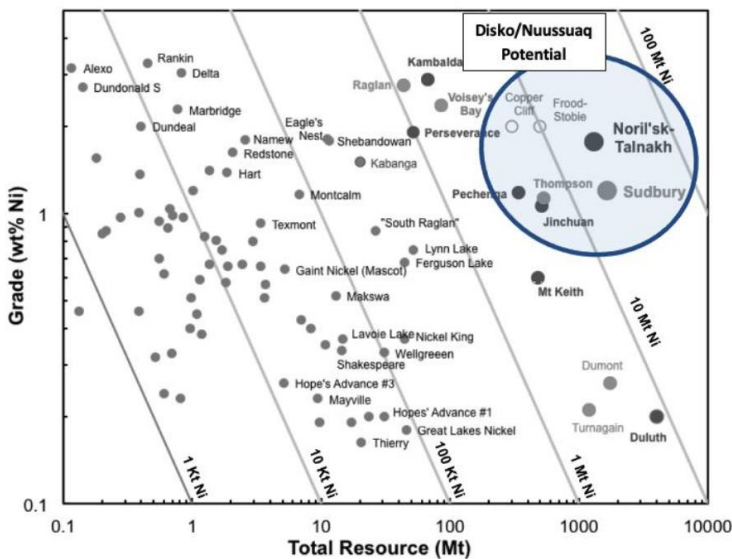
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Map showing the current licence holdings at Disko-Nuussuaq, on Greenland's west coast: Anglo American has staked significant ground around BlueJay's



Source: Company reports

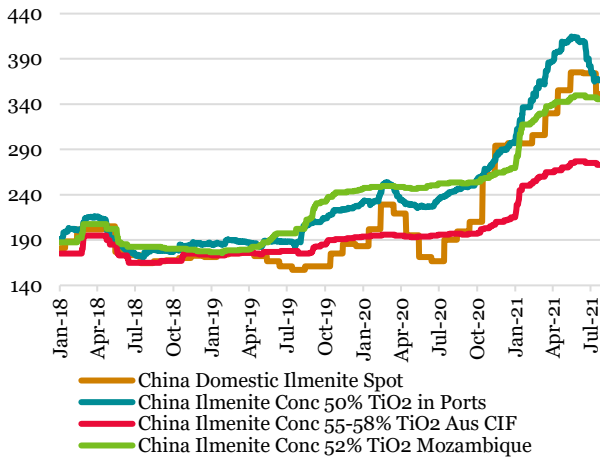
Grade-tonnage plot for global nickel-sulphide mining districts: Disko predicted to be in similar range to Norilsk & Sudbury based on mass balance of depleted lavas



Source: Company reports

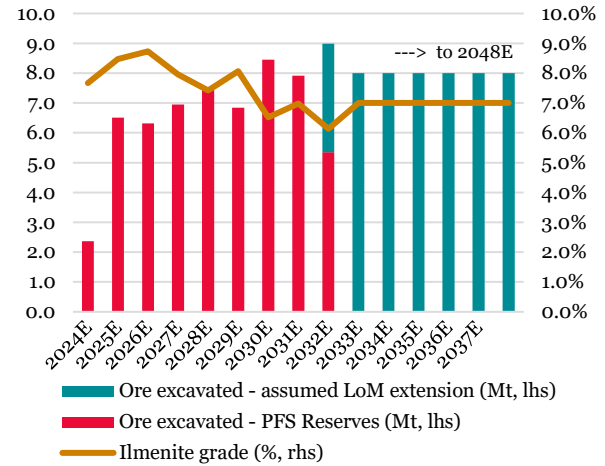
Key Charts

Ilmenite price indices



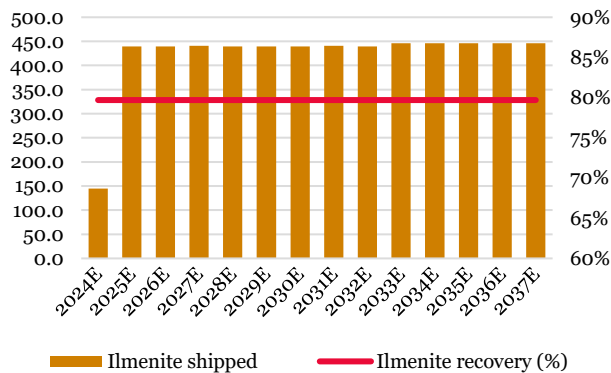
Source: Bloomberg

Ore excavated vs Grade



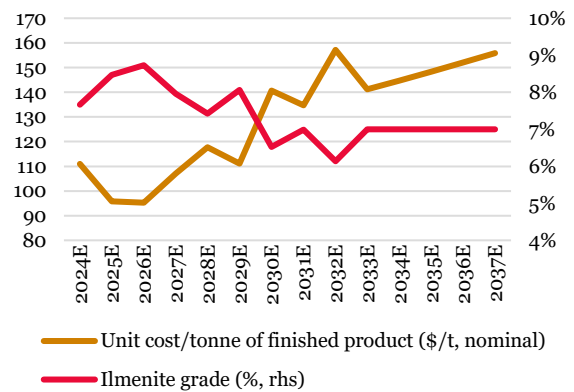
Source: Company reports, H&P estimates.

Ilmenite tonnage shipped and recovery rate



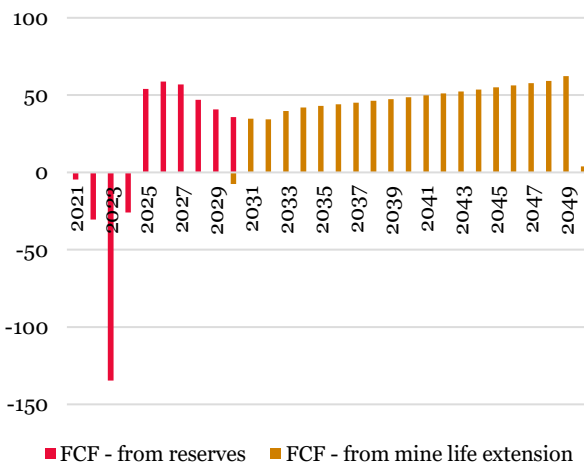
Source: Company reports, H&P estimates.

Unit cost of finished product vs RoM ilmenite grade



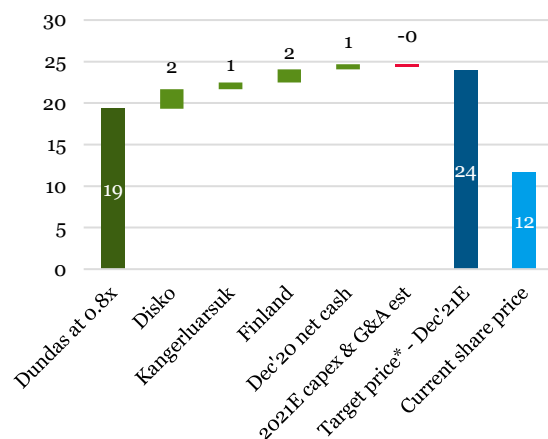
Source: Company reports, H&P estimates.

Dundas FCF (US\$m)



Source: Company reports, H&P estimates.

Price target derivation (GBP per share)



Source: H&P estimates, *PT rounded to nearest 1p.

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